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INFO ASEAN MEMBER COLLECTIVE

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RUEATRS/DEPT OF TREASURY WASHINGTON DC

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RUEHGP/AMEMBASSY SINGAPORE 0049

RUEHHM/AMCONSUL HO CHI MINH CITY 0293

UNCLAS SECTION 01 OF 04 HANOI 001394

SENSITIVE

SIPDIS

DEPT FOR EAP/MLS FOR MFORINO

SINGAPORE FOR TREASURY

HHS/OSSI/DSI PASS TO OGHA (WSTEIGER/MVALDEZ/MABDOO)

TREASURY FOR SCHUN

USTR FOR DBISBEE

USAID FOR DAA/ASIA MELLIS

EAA/ASIA DSHARMA AND CJENNINGS

E.O. 12958: N/A

TAGS: [ECON](#) [PGOV](#) [EAID](#) [SENV](#) [KGHG](#) [VM](#)

SUBJECT: Donors Boost Aid While Highlighting Continuing Development Problems and Crackdown on Information

REF: HANOI 1234; HANOI 1300; HANOI 0909; HANOI 1246

**¶1.** (SBU) Summary. At the December 3-4 annual Consultative Group meeting of donors, Vietnam received praise for its recent fiscal and monetary policy steps to address growing macroeconomic imbalances, including the devaluation of the dong and the decision not to extend short-term commercial interest rate subsidies.

Donors remain concerned about the GVN's capacity to manage macroeconomic policies, combat corruption, reform public administration and create an enabling environment for domestic and international business. The Ambassador expressed strong concerns about the continued tightening of access to information, freedom of expression and press, and civil society activities, stating that these developments would negatively affect and cast doubt on the future of Vietnam's economic and social development. Other CG topics included poverty reduction and climate change. The donors pledged significant increases in official development assistance (ODA) from six billion USD in 2009 to eight billion USD in 2010, with a 40% increase from the Japanese. The World Bank, Asian Development Bank, Korea, and the European Union were the other leading donors. The GVN noted that the assistance pledged from the United States had increased 4 percent to over 138 million dollars which, while not among the top five donors, is one of the highest for an individual country. End Summary.

**¶2.** (U) The 2009 Consultative Group Meeting (CG) of donors occurred in Hanoi December 3-4 with officials from over 31 countries and senior GVN policymakers participating, including Prime Minister Nguyen Tan Dung. The Ambassador, USAID Director, and econoff attended for the United States. The meeting occurred against the backdrop of macroeconomic policy change in Vietnam. Although Vietnam has weathered the global financial crisis better than many of its neighbors with expected GDP growth of 5.2 percent for 2009, serious concerns remain, especially regarding high credit growth, a possible return to high inflation, and Vietnam's falling foreign exchange reserves (Ref A and B).

GROWTH IN A POST CRISIS WORLD

**¶3.** (U) On day one of the CG, the participants discussed Vietnam's economic success, as well as challenges to the country's macroeconomic stability. Dung emphasized the flexibility the GVN was showing in macroeconomic management to respond to changing global conditions and strike an effective balance between combating inflation and encouraging growth. The Prime Minister also highlighted the six top priorities for the GVN: 1) improving the

business and investment environment; 2) applying measures to enhance macroeconomic stability; 3) focusing on development of agriculture and rural areas; 4) expanding social safety nets and speeding up poverty reduction; 5) improving the effectiveness and efficiency of State governance; and 6) maintaining socio-political stability while integrating more deeply into the world. He said achievement of these objectives would enable Vietnam to enhance economic stability and help it become a middle income country by 2010 and an industrialized nation by 2020.

**¶4.** (U) Donors were pleased in general with the GVN's recent monetary and fiscal steps, but urged continued caution. The ADB Country Director said, "risks are growing and we appreciate the GVN's recognition that stabilization is the essential prerequisite for rapid and sustainable growth." Donors called on the GVN to continue with overall reforms, including combating corruption and implementing poverty reduction in a manner that reaches the poorest parts of the country, as part of improving the overall economic environment and promoting investment and development. In response, GVN officials made repeated appeals for continued and increased ODA.

#### CALL FOR FREEDOM OF INFORMATION

**¶5.** (U) The Ambassador led the call for increased freedom of HANOI 00001394 002 OF 004

information, transparency, and openness in all levels of society. He noted the recent "shrinking of space for honest reliable information," citing the recent arrests of bloggers and editors, the closure of prominent NGOs, and the recently-enacted Decision 97, which limits the ability of independent research organizations to publish findings critical of government policy. The Ambassador also expressed concern regarding the recent shut-down of Facebook in Vietnam (Ref C). In comments which were widely reported in the media, Ambassador said the Facebook shut-down was a "serious matter involving a fundamental question of people's right to communicate with one another and to share ideas." He emphasized that such GVN actions reduce Vietnam's attractiveness to foreign partners, especially but not exclusively in the field of education and inhibit Vietnam's growth and development. The PM's response was that each country has its own definition of democracy in accordance with its own constitution and the wishes of its people. He called on the CG participants for patience and continued dialogue.

#### POVERTY REDUCTION CONTINUES, LOW HANGING FRUIT GONE?

**¶6.** (U) The GVN proudly reported that in spite of the past year's economic difficulties, the poverty rate had decreased to 12 percent. While that fell short of the GVN's 11 percent goal, it was nevertheless part of the continued remarkable success that has seen poverty reduced in Vietnam from 58 percent in 1993 to 12 percent in 2008. The participants praised the GVN for its consistent efforts and results, highlighting successful poverty alleviation activities, including the program focusing on the 62 poorest districts.

**¶7.** (U) Serious concerns remain that while the overall poverty rate has decreased dramatically, for ethnic minority communities the rates remain at over 50 percent. Donors noted that while the ethnic minorities are a small part of the population of Vietnam (two to three million people in a country of over 90 million), this number is greater than the total population of some countries. In addition, the ethnic minorities are in the poorest and most remote parts of the country with the least access to social safety nets and government programs, including health and education. Donors also raised concerns about people with disabilities and their lack of social integration and support.

**¶8.** (U) Donors also raised concerns that the current economic situation and increasing urbanization had created a new class of vulnerable migrants who have left the support of their agricultural communities but have no access to urban programs and safety nets. Their living conditions are especially dire when the economy slows down, and they face unemployment with no insurance or social support. Women were also cited as increasingly vulnerable when

they leave rural areas for urban jobs, often in the manufacturing sector.

#### ANTICORRUPTION IN THE HEALTH SECTOR

**¶9. (U)** The Swedish Ambassador led discussions on the recent Anti-Corruption Dialogue held as preparation for the CG meetings. Participants and the GVN applauded the selection of corruption in the health sector as a point of focus for several reasons. First, while termed "petty," corruption in this sector costs lives and disproportionately affects the poorest and most vulnerable. Second, health sector reform is a powerful example of the complex challenges of effectively combating corruption. Finally, corruption in the health sector includes serious IPR violations, for example, in medicines and medical devices. The GVN reported on its progress and shortcomings, acknowledging the need for better implementation of laws and regulations, as well as human resources shortcomings at all levels. Donors pointed out the need for participation by civil society and the media in combating corruption. A final comment by the Ministry of Health representative highlighted how ingrained corruption can be and the extent of the challenges in raising awareness when he stated that "an envelope of money given to a doctor is a gesture of appreciation - not a bribe."

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#### PUBLIC ADMINISTRATION REFORM THE HEART AND SOUL OF DEVELOPMENT

**¶10. (U)** The Ambassador led the discussion on Public Administration Reform (PAR), highlighting the importance of USAID program Project 30, the Prime Minister's top priority program for improving and reforming public administration at all levels. Project 30 focuses on institutional reform and regulatory and administrative simplification to reduce the costs and risks of doing business in Vietnam. The Ambassador said, "PAR fundamentally affects every aspect of a government's ability to fulfill and implement its obligations and responsibilities to society." Donors raised questions regarding the capacity and willingness of the GVN to address such challenges as tax reform, recruitment and promotion of civil servants, and reduction of bureaucracy at all levels of the government. The GVN provided a detailed description of its efforts to implement Project 30, including the requirement that all ministries make a monthly report on their progress to the Prime Minister's office. (Comment: The GVN saw no contradictions in their goals for potential use of e-government and increased use of information technology in government services and the current restrictions and control of the internet and information flows. End comment.)

#### CLIMATE CHANGE HEATS UP

**¶11. (SBU)** Climate change dominated the environmental issues discussion. A significant portion of ODA is targeted for efforts in this area (over \$245 million earmarked in 2010), with significant increases expected in the coming years. The GVN emphasized to participants Vietnam's UN designation as one of the top five countries most vulnerable to climate change. Both Japan and Korea pledged increased support for climate change activities, but the specific projects proposed remain traditional infrastructure development such as road and dike construction. Donors expressed concern about coordination and duplication of their efforts.

**¶12. (U)** The Danish Ambassador and other donors praised the GVN's plan to actively participate in the upcoming Copenhagen Climate Change Conference and highlighted that the Prime Minister is leading the delegation. When the GVN was asked about the possibility of Vietnam taking a lead role in bridging the gap between developed and developing countries, the representative from the Ministry of the Environment and Natural Resources (MONROE) was non-committal and responded that the delegation would be requesting funding from developed countries to assist developing countries affected by climate change. (Note: Earlier, members of the GVN Copenhagen delegation told us that Vietnam would seek for all large emitters, regardless of development status, to commit to greenhouse reductions. (Ref D) End Note) Donors commended the GVN for

having established a senior Climate Change National Steering Committee in 2009, chaired by the Prime Minister, though the GVN did not provide a timeline for the first meeting despite repeated inquiries. The GVN provided few details regarding what practical steps it would take to decrease water pollution and build green energy alternatives.

#### PRIVATE SECTOR INPUT FOR THE CG

**¶13.** (U) During the December 1 Vietnam Business Forum (VBF), the private sector had a half day opportunity to present its views of Vietnam's investment climate and hear senior GVN officials' responses. Representatives of foreign chambers of commerce and a Vietnamese business association struck similar notes, lauding the GVN for its response to the global economic downturn, but voicing concern about the business environment, including inadequate infrastructure, a higher educational system which produced graduates without necessary skills, corruption, the slow pace of SOE reform, and market access issues. The American Chamber noted that labor relations had substantially improved in contrast to last year, when a number of wildcat strikes had disrupted the operations of foreign business. Despite the cited shortcomings, foreign companies generally expressed optimism about the long-term, with 80 percent stating in a survey conducted for the VBF that they

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expected to expand their business over the next three years. Japanese companies ranked Vietnam third, after China and India, as a promising country over the medium term.

**¶14.** (U) Vietnamese officials described their response to the financial crisis and ongoing improvements, such as administrative reform, occurring in the investment climate. They stated that infrastructure development was progressing, but some significant problems existed, such as a lack of financing and the difficulty of increasing energy prices as a means to promote additional energy generation capacity when lower income people were accustomed to low energy costs. Investment officials said they recognized that private sector financing participation was indispensable to infrastructure development given Vietnam's enormous infrastructure needs and inadequate funding from official sources. Ministry of Planning and Investment Minister Vo Hong Phuc said the GVN recognized that more needed to be done to address investment environment problems, and said the GVN would work with the business community.

**¶15.** (SBU) Comment: The CG 2009 meeting remained a highly scripted event with comments and questions provided ahead of time to the GVN. Nevertheless, many participants felt there was a better dialogue than in previous years due to procedural changes advocated by the donors which limited speechifying by donors regarding their own programs. This year's CG also provided a good opportunity to deliver a strong message with some other donors that highlighted growing concern about controls on access to information, press freedom, and civil society as they relate to Vietnam's continued development. End Comment

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